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ABSTRACT

What makes private or independent institutions is how they are governed. One of the virtues of private institutions is that their governance is independent or private. Private institutions serve a vital role in higher education in this country because they are a check and a balance to a sometimes overwhelming governmental presence in the governance of public higher education. What then is the appropriate public policy? It is not a question of whether we should support private higher education, but how. Problems involved are: (1) how to narrow the tuition gap; (2) providing access for middle-income students; and, (3) tuition-offset grants tie institutional aid to students. A solution is to provide a state subsidy that is large enough to keep the Private institution in business and attractive to students. The best way to demonstrate that politically is a tuition-offset formula. It is possible to put pressure on the federal government to correct the geographic inequities that are evident and to demonstrate that it is a good bargain for the taxpayers in the state. (Author/KE)

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SREB Financing Higher Education

A Report of the Southern Regional Education Board

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What Is Good Public Policy For Private Higher Education?

by Steven Muller, President
Johns Hopkins University

The problem of a national policy for privately supported institutions in higher education is a complicated one. I would like to be as impartial and objective as is possible for the president of a private institution. Much of what I am going to say is based on the full report of a task force on which I served.[1] That task force, of the National Council of Independent Colleges and Universities, was chaired by Dr. Juanita M. Kreps, Vice President of Duke University. It suggested a national policy for private higher education in its report.

I would first like to make one personal observation about the virtures of private higher education, because often we have to justify the importance of preserving that sector. I do not think that we can say any longer that the private sector represents academic quality in a unique way, because one can find good private institutions as well as poor ones, just as one can find excellent and less excellent institutions in the public sector. We cannot claim that, as a group, private institutions have a monopoly on quality or are outstanding for it.

Independent Governance Distinguishes Private Sector of Higher Education

It seems to me that the obvious thing about the so-called private or independent institutions is often ignored: what makes them private or independent is neither quality as such nor the fact that they receive their income from private sources, because that is increasingly less true. I know of very, very few private institutions that do not receive some sort of public money. On the other hand, I do not know too many public institutions that do not try to raise private money. The University of California and the University of Michigan receive as much private support as some of the leading private institutions. It is not how institutions are funded that makes the difference.

What does make the difference is how they are governed. One of the great virtues of private institutions is that their governance is independent, or private. Private institutions continue to serve a vital role in higher education in this country because private institutions are a check and a balance to a sometimes overwhelming governmental presence in the governance of public higher education.

I regret that the institutions of American higher education are so much set one against another at a time when we have problems that we ought to address in common. One of the great virtures of private institutions is their ability to assist public ones when there is too much governmental interference in their affairs, because we can be free to say things that the public institutions have difficulty saying, and because we can illustrate the virtues of autonomous and independent educational administration. Public higher education has an interest in seeing us survive and ought to be willing to recognize that some funding from public sources has to go for that purpose. What is so essential about private higher education, then, is that it is independent and can serve as a counterweight to

Dr. Muller, who is one of Maryland's five representatives on the Southern Regional Education Board (SREB), expressed his views on public aid to private higher education in this address which was delivered at the SREB annual meeting held in Boca Raton, Florida, June 15-17, 1975.

[1] *A National Policy for Private Higher Education: The Report of a Task Force of the National Council of Independent Colleges and Universities*, 1974. Published by the Association of American Colleges.

what might otherwise too easily become what we have almost everywhere else in the world — a system of higher education which is a tool of the state. When you have that, you have a system that simply is not within the American democratic tradition.

What then is an appropriate public policy? It is not a question any longer of *whether* we should support private higher education, but *how;* because, to a large extent, everybody is already doing it. The task force collected data about the number of private institutions in the United States in 1973, which was the last year for which there was complete data. The number arrived at was 1,528. I realize that since that time some of the institutions may have gone out of business, and for all I know others may have been added. However, the tables I have indicate 380 of those were in the states that are SREB member states. The other fact is that in the last ten years, the number of students enrolled in the private sector as compared to the total enrollments has gone down. (See Table 1.)

Enrollment in the private sector is declining, as compared to total enrollment, and if it declines much further, private higher education is essentially going to be out of business. However, we still teach some 2.1 million students; and if you tried to calculate how much it would cost the public if these students were all enrolled in public institutions, the amount would certainly run into billions. Currently, 42 states out of our 50 states now aid students in colleges and universities. That is why I say virtually everybody is doing it. There are only eight states that do not; and 19 states, as of 1974, in addition to aiding students, provide some form of direct institutional aid to their private institutions of higher education.

One other thing about private institutions: of the 1,528 in 1973 that were called private, 942 — almost two-thirds — had enrollments of under 1,000. So there is one other way in which the majority of private institutions are different: they tend to be smaller. It means that they are probably less cost effective, because when you have an enrollment of less than 1,000 you cannot achieve the economies of scale that you can in a larger operation. On the other hand, they may meet a special need for students that are uncomfortable in a very large institution. Of course we must make a judgment as to whether we want to continue to provide that opportunity for students or whether we think that it is just too expensive.

How to Narrow the Tuition Gap

Now in the report, *A National Policy for Private Higher Education,*[2] which the task force worked on for about an 18-month period, we come out with a recommended policy that has five major ingredients. Let me briefly review what these are. We concentrate on narrowing the tuition gap. The size of that gap in absolute dollars is becoming ever larger. In the table that illustrates the gap, what is interesting is that in the last few years the ratio of private tuitions to public tuitions has remained roughly constant. That is, in 1961-62 it was 4.2 (private tuition was 4.2 time higher) and ten years later it has gone up to only 4.9 in 1972-73. But the dollar gap in 1961-62 was $688 on the average, and in 1972-73 it was $1,500. So the ratio did not change very much, but the dollar amount changed a great deal. We are advocating in this report that efforts be undertaken to narrow that tuition gap, on the grounds that if we do not narrow it, we are effectively destroying the opportunity of the student to choose because the dollar gap becomes too large. Because we believe that there is no uniform formula to do that job, we recommend a menu of options. A program to be of maximum effectiveness in narrowing its tuition gaps should have the following characteristics:

"It is no longer a question of whether we should support private higher education but how..."

1. The grants would be made by the states, though part of the funds would come from federal incentive grants to the states. We are anxious to resist the direct intervention of the federal government in this, and we think the funding should come through the states. Even if federal money is involved, it should come to the states for that purpose.
2. The grants would be made in the form expressly designed to narrow the tuition gap between private and public institutions. They might be paid directly to students, to institutions, or to both. If grants to students were available in both sectors, they would provide a differential amount for students in the private sector to offset the higher private tuition.
3. A state program would be made up of any one or a combination of the following options:
   a. A plan to provide private colleges with institutional grants and/or payments for services;
   b. A plan to provide aid to students attending either public or private colleges with the grants varying according to the cost of the college of the student's choice; or
   c. A plan to provide tuition-offset grants to all students of private colleges.
4. If these tuition-offset grants were selected they would be made available to all or most of the qualified students in private institutions without restrictive conditions as to financial means or scholarly attainment.

[2] Ibid.

5. Similar grants would be made available to graduate and professional students in private colleges and universities.
6. The amount of the tuition-offset grants would be calculated to narrow, but not to eliminate, the tuition gap. The formula in each state would be geared to subsidy provided from public funds for students in public institutions. These possible formulas would have the advantage that the amount of the tuition-offset grant would be tied to magnitudes that are under control of the state government, namely average cost of instruction and average tuitions in public institutions. No item in the formula would be under the control of the private institution that would benefit from the grant, so it could not manipulate its operations to get more money from the formula. But as public institutions change their expenditures or their charges, the amount of the tuition-offset grant would be correspondingly altered.
7. The tuition-offset grant program would not replace existing programs of student aid or institutional aid. In computing student financial needs under existing student-aid programs, the tuition-offset grant would be deducted from the cost to the student in a private institution. For example, a tuition offset of $800 would reduce a $4,000 total cost to the private college student to $3,200 for the purposes of determining student aid.

Let me stress one aspect of what this report suggests: we do not favor a means test. The reason is, as the report says, "We favor avoiding means tests for both philosophical and administrative reasons. No means tests are imposed on students who benefit from subsidized education in state institutions and every student in an institution profits from a subsidy that a state provides. And the same principle should apply to tuition-offset grants to private college students. Moreover, the grants should

Federal Aid to Private Sector Advocated

Another perspective on policy for public financing of private higher education is advanced in the following excerpt from an address delivered by Russell I. Thackrey, Director Emeritus of the National Association of State Universities and Land-Grant Colleges (NASULGC), to the Higher Education Colloquium in Chicago on March 23, 1975. The views expressed are Mr. Thackrey's personal positions and not those of NASULGC.

"My own view has been, for a considerable time, that if substantial governmental support is necessary to the welfare of private higher education, it had better come from federal rather than state sources, if we wish to retain much of the private and independent character of 'private' higher education.

"Much of the discussion of governmental aid to private higher education has centered on the argument that private higher education performs a public service. Of course it does.

"Too little attention has been paid to the question: If private institutions are to be aided by government, how can the aid best be provided to maintain the greatest diversity between public and private higher education?

"I believe federal aid is a better answer than greatly increased state support. The more the states take responsibility for the welfare of private higher education, the less private or independent from state government it is going to be. In New York, the Regents recently told three institutions to close down certain graduate programs. Two were private institutions; one, public. In another Northeastern state, private institutions have been notified that their state funding is so substantial that their trustees' meetings must in future be open to the public, as is required by law of public bodies.

"A modest level of institutional support from federal sources, for both public and private higher education, is much less likely to wipe out valued distinctions, than for both types of institutions to rely heavily on the states. This is particularly true of institutions which attract substantial numbers of non-residents of their state. Virtually all students are residents of the nation, but the states have in the past, and will continue in the future, to insist that state support be related to the education of state residents, whether that support is direct or indirect.

. . . . . .

"To the extent that the states get heavily involved in financing private higher education, they will tend to require the same type of accountability and control which are required of public institutions. If they do not, the courts are quite likely to see that they do.

"We can learn something from the Canadian example. For some years the central government in Canada provided aid to both public and private colleges and universities. For various reasons, including the opposition of Quebec to the program, the federal government abandoned direct responsibility for financing higher education and remitted to the provinces certain tax revenues equivalent to the federal support previously offered. Both the former executive of the Association of Canadian Universities and Colleges and his successor have told me that this change meant *the essential disappearance of private higher education from the Canadian scene.*"

be helpful to people in the middle-income brackets, who have usually been excluded from most programs based on need. Means tests are inherently difficult to administer fairly and the difficulty is being compounded as increasing numbers of 18 year olds are claiming adult status."

One Major Problem Is Providing Access for Middle-Income Students

That reference to middle income allows me to make one other point that is stressed in this report. It suggests that the present federal programs are geared too exclusively for the low-income student. There is a myth that private institutions cater primarily to the wealthy family or the less-than-low-income family. That is not true, because most private institutions do, in fact, spend a great deal

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"One of the worst bargains... is for a state to take over a private institution."

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of their own funds in order to provide scholarship aid to qualified students who do not have the financial means to attend. In the major private research universities, 19.8% of the students, or nearly a fifth, come from families with incomes of less than $10,000 a year. The cost to the institutions is enormous, but the students are there. In the smaller public liberal arts colleges, 25% of the students come from family-income levels of under $10,000 a year; in the private ones, nearly 30% (specifically 29.9%) of the students come from families with less than $10,000 a year annual family income. The Basic Opportunity Grants and some of the other allied federal programs now assist primarily families with income levels of under $9,000 a year. The people who are really getting mistreated and who are disadvantaged with respect to access to higher education in the United States today are middle-income families. They are the ones who on the one hand, are not able to pay the high tuitions for private education and increasingly are having difficulty in even meeting the lower expenses of public schools. They are not wealthy enough to do it on their own, and they are pretty much excluded from federal and from a number of state-aid formulas as well.

The biggest problem all of us in higher education face is whether we can continue to provide access to what used to be our bread and butter, the middle-income family, no longer just part of the white majority now that a larger and larger number of black and other minority race families are moving into at least the lower ranges of what we now define as middle income. We suggest therefore, very simply, that federal programs be modified to include more middle-income families. We believe that the $9,000 limit of family income for BEOG's just does not make any sense.

We have one possibly controversial recommendation that I need to deal with briefly. Simply stated, the problem is this: public aid to private higher education has up to now been primarily a function of state governments. As a result, the system of aid has been inequitable among geographic areas. Programs in states now giving aid differ widely in their provisions and level of funding, and some states have no program at all. Therefore, the amount of aid available to particular institutions or particular students is a matter of geographic accident. In addition and more seriously, state programs are confined within the state's own boundaries. They are limited to students who are state residents and who attend in-state institutions. Many students attend or wish to attend private colleges outside their home states, and many private institutions draw heavily on students from out of state. The free flow of students across state lines is desirable to increase student choices and to overcome provincialism. A system of aid that restricts this interchange of students impairs student freedom of choice. This is an important point because there is an advantage in principle to having a mix in your student body of students from inside and outside your state, and private schools tend to be much more flexible and attractive in this regard than public ones. I think that is worth preserving; so does this report.

Tuition-Offset Grants Tie Institutional Aid to Students

What we suggest is the following: If the states are to be the primary source of tuition-offset grants, two possibilities exist. One is to pay tuition-offset grants to state residents regardless of where the private institutions they attend are located. An example of this was the initial Pennsylvania plan, which gave equal aid to needy students attending both in-state and out-of-state institutions. The other is to pay tuition-offset grants to students attending in-state private institutions regardless of the states in which they reside. An example of this is Maryland, where the in-state institutions are paid a capitation grant for each student without regard to the residence of the student. We believe, however, that this is primarily a federal problem because these are students moving across state lines. Thus, what we favor are federal incentive grants to states to enable them to use one of these alternatives. And we favor a federal incentive formula where the bulk of the funds would come from the federal government to enable the state to do this.

The other two points I will mention briefly but not elaborate on unless there are questions. They have to do with the fact that there is a crucial need for statewide planning. It should include pri-

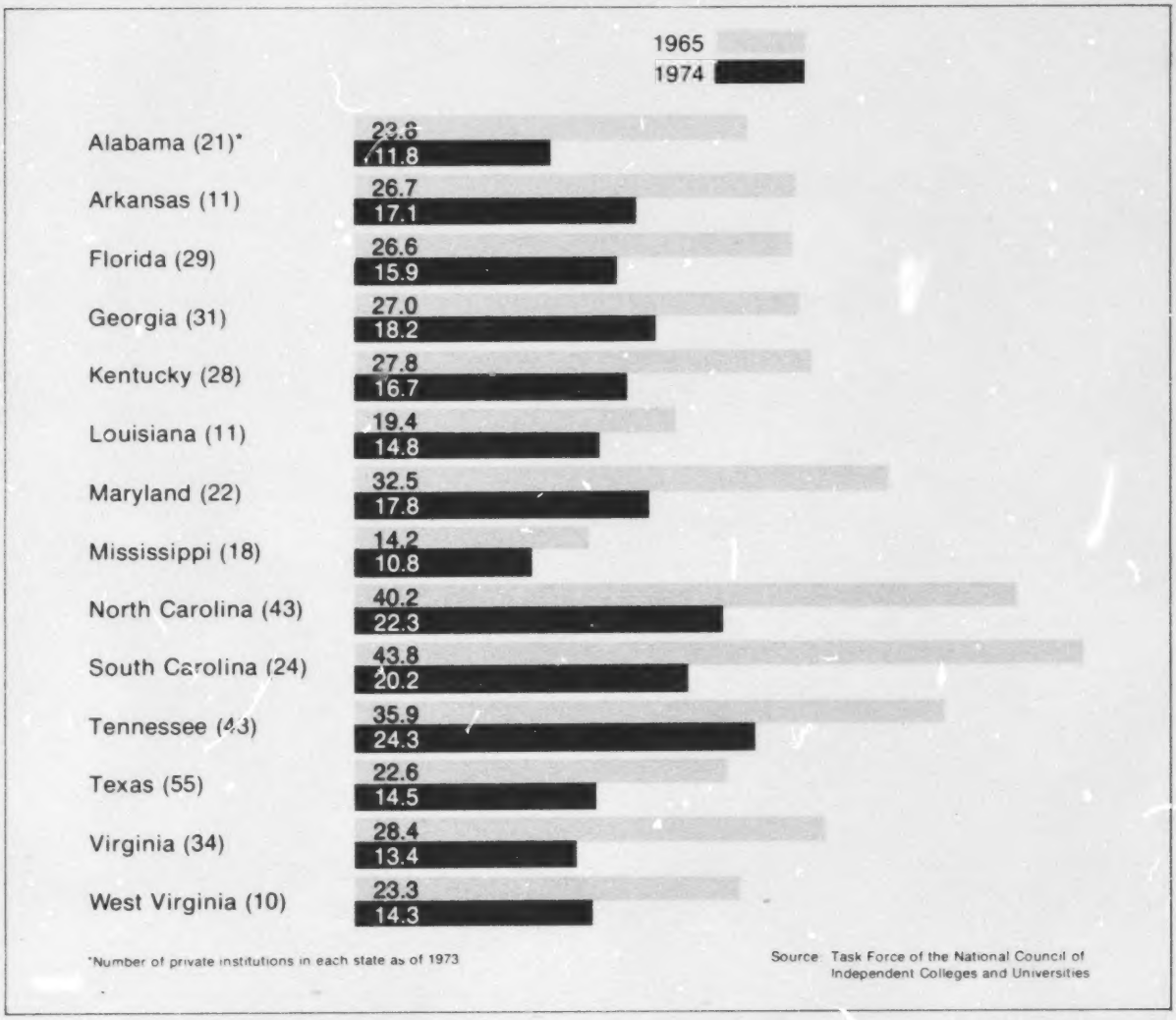
vate higher education so that, for the sake of the taxpayers' dollars, public institutions would not be constructed in areas where there are already strong private institutions, because it is a duplication and a waste. Private higher education should therefore be adequately and fully represented in any statewide coordinating body and should be willing, of course, to share in the planning. As for the question of accountability, we can ask private institutions to provide data just the way we ask public institutions to provide it, as long as we do not interfere in their governance. The one thing that would destroy private higher education completely, whether it continues to operate primarily with private funds or not, would be to have its governance in the hands of the legislature of the state or in the hands of a public body. Then it would no longer be independent or private.

Finally we argue that there should be tax incentives retained for philanthropy. That is more of a federal problem than it is a state problem and so I will not elaborate on it here. There are some very bright people who are now arguing that we ought to amend our tax laws drastically to reduce charitable deductions. That of course would be the single biggest financial blow to private education we could have.

I believe that institutional grants are inevitable if private education is going to survive, but I also believe that those institutional grants must be tied

Table 1

Students Enrolled in Private Institutions of Higher Education in SREB States as a Percentage of Total Enrollment



*Number of private institutions in each state as of 1973

Source: Task Force of the National Council of Independent Colleges and Universities

Table 2

Summary of State Support for Private Education SREB States*

Alabama	**Direct Institutional Aid** Funding for 1973-75	
	$1.1 million per year Tuskegee	
	$200,000 per year Walker College	
	$200,000 per year Marion Institute	
Arkansas	**Student Assistance** Funding for 1975-76	
	$300,000 Up to $300 to students attending public or private institutions	
Florida	**Medical / Dental / Nursing** Funding for 1974-75	
	$4.3 million University of Miami Medical School	
	Student Assistance Funding for 1974-75	
	$9.5 million Florida Insured Student Loan Program	
	$4.3 million Florida Student Assistance Grant Program	
Georgia	**Student Assistance** Funding for 1974-75	
	$4.6 million $400 tuition grants to each state resident attending private accredited institutions	
Kentucky	**Student Assistance** Funding for 1975-76	
	$500,000 Tuition grants for students at private non-profit colleges and universities	
Louisiana	**Medical / Dental / Nursing** Funding 1974-75	
	$350,000 To provide for the support of the admission of 70 freshmen from the state to Tulane Medical School	
Maryland	**Direct Institutional Aid** Funding for 1975-76	
	$5.4 million To state-accredited private institutions	
	Student Assistance Funding for 1974-75	
	$4.1 million State Scholarship Board Programs	
North Carolina	**Contracts** Funding 1974-75	
	$4.6 million To allow private institutions to administer state-appropriated scholarships to needy North Carolina students	
	Medical / Dental / Nursing Funding 1974-75	
	$1.4 million Education of North Carolina residents in private medical schools	
	$1.0 million Assistance to hospital diploma nursing programs	
	$1.15 million Educational Loan Program in health fields	
	Student Assistance Funding 1974-75	
	$6.0 million Insured Loan Programs	
	Comprehensive program Funding: self-supporting through sale of revenue bonds	

*The state of Mississippi does not provide financial support for private education.

in some way to students. If they are not, those of you who are in state legislatures or in state executive offices are going to have to face a horrible problem. You are either going to have to make up your mind that any institution that exists is worth preserving — and that would be nonsense — or you are going to have to make qualitative judgments as to whether X-college or Y-college is worth preserving. You probably will not feel qualified to make those judgments. The best way to avoid the problem is to have the marketplace determine their survival. This could be brought about by a combination of tuition offset that would give the student the freedom to choose and perhaps an institutional override. This would be of the kind that we were all familiar with during the post-World War II period when the GI Bill was alive. Under it an instititional reward could be made or an additional offset grant be tendered for having the student enrolled. Those institutions that are no longer attractive to students are not worth preserving, and we cannot make the case for support of private education based on the

South Carolina	**Contracts** Funding 1974-75 $100,000 State contracts with private and public colleges to provide in-service public school teacher training	
	Direct Institutional Aid Funding 1974-75 $87,870 Practice teaching fees to compensate public school teachers supervising undergraduate practice teachers at private colleges	
	Facilities Assistance Provides mechanism for private institutions to obtain funds for construction of physical facilities through statewide bonds	
	Sudent Assistance Funding 1974-75 $6.18 million Tuition grants based on merit and need for students at private institutions	
Tennessee	**Medical / Dental / Nursing** Funding 1974-75 $80,000 Contract for graduate nursing at Vanderbilt	
	$229,000 Contracts for Vanderbilt and Meharry for increasing enrollment of Tennessee medical students	
	$300,000 Loan scholarship program for Tennessee medical students who intend to practice in a shortage area	
	Student Assistance Funding 1974-75 $3.4 million Tuition grant programs (NOTE: Declared unconstitutional in November, 1974)	
Texas	**Medical / Dental / Nursing** Funding 1974-75 $6.1 million — Medical $4.8 million — Dental Contracts with Baylor for training of Texas residents	
	$1.9 million Contracts with Texas College of Osteopathic Medicine for Texas undergraduate medical students	
	Student Assistance Funding 1974-75 $7.5 million Tuition equalization grants based on need for Texas residents attending in-state private institutions	
Virginia	**Facilities Assistance** Building Authority to provide means for private colleges to borrow money for new construction using tax exempt bonds	
	Student Assistance Funding 1974-76 $2.6 million State Teacher Scholarships, 5% to go to private college students	
	$205,500 Program for nursing/dental hygienists, 5% to private college students	
	$4.1 million Tuition assistance loan program for all Virginia students attending private institutions	
	$1.42 million College Scholarship Assistance Program	
West Virginia	**Student Assistance** Funding 1974-75 $1.5 million State scholarship program for residents at public or private institutions	

fact that every private institution that now exists has to continue to exist. But if we are going to avoid that, we are going to have to somehow enable students to continue to choose, and we are going to have to see whether we can tie an institutional formula to student enrollment.

After I was asked to appear on this program and long after this report on a national policy for private higher education has been published, one new idea entered the field. About five or six weeks ago a consortium representing 30 private instititions and chaired by David Truman, the President of Mount Holyoke College, came out with yet another plan. They were anxious to come up with a policy that would benefit the private sector and avoid all conflict with the public sector. If you know anything about American higher education, you know that is like deciding you are going to walk on water. What they came up with was the following: their research showed that there is one item of expense in higher education which is, in fact, roughly the same, at least at minimal levels, for all students whether

they are enrolled in public or private instititions. It costs, on the national average, not less than $1,500 a year for those students to eat and sleep even if they do not eat and sleep on campus but live at home and ride back and forth to campus. The consortium therefore proposes bypassing tuition problems and has advanced a very simple proposal: for the federal government to make available to every student in higher education who is enrolled in any institution anywhere in the United States a basic $1,500 a year living allowance, on the grounds that it would benefit everybody.

This may be a good idea, but I expect that it will not be rapidly funded either. Please let me state in conclusion that there is now accumulating evidence that one of the worst bargains for everybody is for a state to take over a private institution. There are two reasons for that. In most cases where this has happened, public higher education in that state has suffered because so far there is not a single instance where state funding has gone up enough to allow for the full cost of absorbing a formerly private institution into the public sector without penalizing the other existing public institutions to some degree. What happens is that either they are penalized to accommodate the new boy to some degree or the new boy is not much better off in the public sector than he was in the private sector before. Thus it is not a good bargain, particularly for the taxpayers, because it turns out that a much smaller amount of state aid would have kept the institution alive as a private institution as opposed to its being totally taken over by the state. Too many decisions are made because alumni lobby in legislatures or somebody else has an axe to grind, whether it is a local Chamber of Commerce or some other community pressure group. Too few of those decisions to annex have been made on the basis of whether or not the state really needs that institution in its state system. What does work well is to provide a state subsidy that is large enough to keep the private institution in business and attractive to students. The best way to demonstrate that politically is a tuition-offset formula. We believe it is possible to put pressure on the federal government to correct the geographic inequities that are evident, and we also believe that we can demonstrate that it is a good bargain for the taxpayers in the state.

Further Reading...

1. *Legal and Political Issues of State Aid for Private Higher Education* by William H. McFarlane and Charles L. Wheeler, SREB, 1971, $2.25.

2. *A National Policy for Private Higher Education: The Report of a Task Force of the National Council of Independent Colleges and Universities* chaired by Juanita M. Kreps, Association of American Colleges, 1974.

3. *State Financial Measures Involving the Private Sector of Higher Education: A Report to the National Council of Independent Colleges and Universities* by William H. McFarlane, A. E. Dick Howard and Jay L. Chronister, Association of American Colleges, 1974.

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